

Administration Departments

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THE FUNCTIONS OF THE ADMINISTRATIVE DEPARTMENT

I have been asked to address you on the subject of administrative departments. This request was subsequently made more specific by a telegram which I received from Mr. Porter, advising me that the administrative departments were understood to cover the board of directors, the executive committee, the general manager, planning, engineering, and the legal departments of the business.

It is impossible, in the brief time at our disposal, to cover every one of these subjects in anything approaching a detailed and adequate manner. I have, therefore, chosen to confine my discussion to a consideration of the administrative departments as a whole, meaning thereby those departments of the business which have to do with the direction and operation of the business as distinct from the selling and manufacturing departments.

The final success of any business depends upon the efficiency of its administrative department. The administrative department is the brains of the enterprise. A strong, efficient organization, directed by an incapable administrative department, is ineffective, and necessarily falls short of achieving the results which the same organization, capably directed, would secure.

Organized, as we are, to study every phase of efficiency in connection with industrial effort, it becomes a part of our work to study from the broad point of view the efficiency and deficiency of the administrative departments of American business.

THE TEST OF ADMINISTRATIVE EFFICIENCY

We all recognize that efficiency is the relation between the determined standard and the actual performance. Before we can speak of

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efficiency concretely, we must measure the standard and the performance. To measure accurately the performance of an administrative department is impossible; to set a definite standard, equally so.

Obviously the idea of every administrative department must be to secure the greatest possible success for the business operated. The only difficulty is to define the greatest possible success. Is it to extract for the shareholders or owners the largest possible profits? It does not seem so. To operate a business with the greatest degree of success includes far more than that.

I believe that it involves a triple service, and that each master must be served faithfully.

(1) Capital, as represented by the owners.

(2) Labor, as represented by the employees.

(3) The consumer, as represented by the public.

Properly to correlate and measure the various factors in this equation would require a more complicated slide rule than that astute mathematician, Barth, ever conjured up in his wildest mathematical dreams. But, while it is impossible to measure the efficiency of an administrative department in a scientific way, a measurement of its efficiency in terms of the various services it must perform, is constantly being made by the owners, the employees, and the public.

It is as much a part of the duty of this organization to study and promote efficiency of executives and the administrative departments which they dominate, as it is to study and promote the efficient use of material and the efficient operation of labor.

You will no doubt agree with me in the statement that any administrative department—speaking of the subject in the broad sense—analyzes to the basic element of some one dominating individual, no matter what his official position may be. The efficiency of the administration of the business which he dominates is a reflection of his own efficiency. Its deficiencies are, in a way, the summing up of his own deficiencies. If we consider then the efficiency of the dominating executive, we will, at the same time, be considering the efficiency of the administrative departments which he directs.

THE DEFICIENCY OF EXECUTIVES

I believe that the great majority of executives in this country are not more than 25 per cent. efficient, measured by the standard of performance of the comparatively few really efficient ones. In other words, I believe that a greater percentage of inefficiency exists in the

administrative departments of our business than exists in our shops and clerical departments. I believe this to be as true for big business as it is for little business. I believe that this lack of efficiency in big business is more likely to increase than diminish, as time goes on.

I realize that in making these statements I am laying myself open to challenge and criticism; however, they are made with sincerity and deliberation; a careful study of a great many business administrations made by myself and my associates in the last fifteen years will bear out the statement.

Don't think that I am speaking from any imagined position of superiority. I do not fail to recognize the deficiencies in my own administration of the business which I dominate—we are all tarred by the same stick. A redeeming feature—if I have any—is that I am able to recognize some of these deficiencies and struggle against them.

I often remind myself of a man I knew in the little Illinois village where I first had acquaintanceship with real work thrust upon me. This man kept the general store in our town, and, bad as general stores were in those days, this one was worse. Al. Becker was the chief executive, and dominated the administrative department, which consisted of himself and a worn-out old darkey, who also filled the position of chief of the shipping and sales departments.

Becker was a man of great fertility of imagination, and full of ambition for better things; he would spend hours with his customers, explaining all the things he was going to do to that store as soon as he got around to it! Better fixtures, a horse and wagon, stocks that never gave out—all that a storekeeper and his public could want—"as soon as he got around to it." The only trouble was, he never did.

At last Brother Martin, who had waited patiently for two weeks for a new pipe which he needed, and which Becker had promised would be in in a day or two, lost patience, and, after expressing his feelings with more eloquence than propriety, wound up by saying in a withering tone: "So you're waiting till you get around to it, are you? Guess you don't wait till you get around to your victuals, do you? If you did, you might starve."

Becker looked grieved. "Martin," he said, "don't you go makin' no foolish talk about waitin' to get around to victuals; victuals *have* to be et."

That may be the trouble with most of us, gentlemen—if we don't *have* to do things, many of us don't do them as expeditiously as we should.

Returning to efficiencies of administrative departments, let us con-

sider, first, some of the deficiencies of the administrative department; second, the reason for these deficiencies; and third, the steps that can be taken, whether stimulated internally or externally, to correct and improve these deficiencies.

INADEQUATE RETURNS ON CAPITAL INVESTED

According to the ordinarily accepted standard for business success, the first great deficiency is the failure of the administrative department to secure for the business which it is directing, an adequate profit or return on the capital invested.

I think you will all agree with me that the actual capital invested in any enterprise, outside of a natural monopoly where the returns are as nearly sure as anything human can be, is entitled to a return of at least 15 per cent. after adequate charges for depreciation and maintenance have been deducted. How many businesses in this country, outside of those controlling a natural monopoly, are securing this return on the actual capital involved? Unquestionably a great many, but a great many more are not.

Too much capital in a business is more disastrous from the standpoint of net results than too little capital. A careful study of the capital involved and the profit secured in the various lines of industry reported on by the United States Census Bureau will show that in the great majority of industries the return on capital is considerably less than 7 per cent.

There are many notable exceptions, and there are many concerns that are making much more than this from the capital which they use. This merely shows how efficient an administrative department can be from the profit point of view, and the wide margin that exists between the theoretical efficiencies and the actual efficiencies which most of them obtain.

A grave deficiency of the administrative department of many of our large businesses lies in the fact that they are administered more for the benefit of the speculator than for the small investor, who probably owns the majority of their shares.

Where the capital with which a business is operated is supplied by a number of small stockholders, each owning a few shares, and representing by their very number a relative lack of individual importance, unable to exercise the control which concentrated capital is able to exercise, the responsibility of the administrative department to the capital becomes an even more important factor than in the case where

the responsibility is to capital in a large mass. How many times this attitude on the part of the administrative departments dominating our larger businesses has been violated in the past, it is unnecessary for me to tell you.

Measured in terms of efficiency, the presidents, boards of directors, or general managers who operate their business from the point of view of stimulating speculative interest in their stock, of making it a feature in the stock market, are more inefficient than the common laborer who sleeps away his day in some secluded corner of the factory.

FAILURE TO BUILD FOR A FUTURE

The inefficiency of many of our administrative departments is their failure to build the business on a permanent basis. They intend to go ahead from day to day, making goods, and selling them at as large a profit as they can secure. They trust to lower prices and the efforts of their sales department to keep their goods moving.

There is, in my opinion, no more definite responsibility laid on the administrative department of any business than to build for a permanent future. Many administrative departments consider that money spent in advertising trade-marks and establishing trade-names with the public are direct operating expenses. It seems to me that expenditures of this nature should be regarded as investment rather than as expense.

Consider some of the well-known trade-marks which have been established in this country, and which have created a demand for the goods sold under these trade-marks, which will continue for years, irrespective of price or other consideration. Take such names as Steinway, Tiffany, Dunlap, Heinz, McCormick, Castoria, Sapolio. Is it not true that the money and effort which have been spent in making these trade-marks what they are, constitute one of the greatest assets of the business which controls them? Have not the administrative departments of the business which have developed and established such trade-marks shown a remarkably high degree of efficiency in this most important feature of business success?

FAILURE TO MAINTAIN PROPER WAGE STANDARDS

Going over the elements by which the efficiency of the administrative department should be judged, and considering the results accomplished in connection with the duty which the administrative depart-

ment owes to labor—the employee—it is as much a part of the duty of the administrative department to pay its labor a wage that will enable it to live according to American standards as it is to provide the capital involved with an adequate return. Here you will find that most of the administrative departments which are efficient from the return on capital point of view are sadly deficient.

Consider the labor condition of many of our large corporations which are making more than adequate return on capital, and you will find that in most of these cases their average wage is below the standard agreed on as capable of sustaining family life in accordance with our American standard. It is inefficiency of this sort which is creating the spirit of unrest and the growth of socialism, which are becoming so marked a feature in our national life at the present time.

Failure to maintain proper wage standards is a breach of trust, not only to the employee, but also to capital. The dissatisfaction and unrest, which inadequate wages invariably cause, will become eventually a far graver menace to capital than a slight lowering of the dividend rate. I claim that those administrative departments which fail to pay adequate wages are just as inefficient and are as much in need of having their efficiency increased as are those administrative departments which fail to secure an adequate return for the owners.

FAILURE TO MAINTAIN REASONABLE PRICES

Consider the third feature in the measurement of the efficiency of the administrative department—the duty which the administrative department and the business which it directs owes to the public. This duty is to place in the hands of the public the goods or service which the public needs or wants, at a reasonable price.

I do not believe that it is good efficiency to charge the public \$10.00 for an article which could just as well be supplied for \$8.00 if the business were properly organized and directed. Yet, this is what many businesses which are efficient, from the capital and labor standpoint, do to the public.

It is inefficiency of this sort which leads to the demand for government ownership, supervision, and price-setting, which is growing up among us. The public never has grudged and never will grudge a fair profit to capital, or a fair wage to labor. The public, however, will not stand and should not stand indefinitely for higher prices than are necessary to secure this reasonable return and reasonable wage.

THE IDEAL EXECUTIVE

To what are these inefficiencies due? Generally speaking, to the same things that cause inefficiency on the part of labor: lack of knowledge, lack of judgment, lack of interest, lack of training, lack of intelligence, and lack of energy.

The ideal executive is the man who, after careful training in a well-run establishment, embarks in business on his own account with his own money, dependent upon his own efforts for his success or failure. Such a man has the training already secured in his years of preliminary experience. As he usually starts in a small way, he becomes familiar personally with every detail of his business. He knows it from the financial side, from the manufacturing side, and from the selling side. Granted that he has cultivated good judgment—he has the interest, the knowledge, and the personal touch, which should lead to success.

As the business becomes larger, through his success, he is able gradually to lessen his attention to details, and to maintain his personal grip on the situation through statistics and reports prepared in accordance with his directions. Every report he receives he interprets in terms of the personal equation. He is constantly checking, by definite statistics and reports, the personal impressions received in his daily intercourse with his subordinates.

If such a man is broad enough to recognize his duties to his employees and the public, he should become, and generally does become, the highest example of efficiency in the executive, and builds up a highly efficient administrative department. It is this type of man that has made American business what it is to-day, and it is on this type of man that the success of American business in the future must depend.

THE INABILITY OF BIG BUSINESS TO DEVELOP EXECUTIVES

The great weakness of our big businesses—of our trusts—lies in the scarcity of men of this type. The success of the various units of which our trusts are composed has generally been brought about through years of effort on the part of a man of this type.

When the trust is first organized these men are retained, and, having better tools to work with, or more resources at their command, they are usually able, while they remain in control, to show better results with the larger business than they have been able to show with their individual units. Presently, however, these men begin to

retire or die off. They must be replaced. From what source can they be replaced? Men of this same type are running their own businesses—are making good. They cannot be lured to the employ of the trust, even if the trust were able to find them.

If you think it is easy to find 100-point executive men, based on any reasonable expectation as to standard of performance, take a contract to find a dozen or so of them within an ordinary limit of time. Your efforts will be covered with about the same success as was that of the individual who camped near a frog swamp in Jersey, and thought a contract he had made for furnishing 1,000,000 frogs' legs per week to New York hotels was one of the really sure things of his time. The visions of plutocratic indulgence that he had under consideration were knocked into a cocked hat before the first week was over when he learned to his sorrow and chagrin that there was absolutely no mathematical relation between the noises he had heard and the number of frogs available on his contract.

The trust must fall back to the higher executive, to a man developed through trust methods. However able such a man may be, however good a use he may be able to make of statistics and reports, he cannot possibly have that close personal touch with the various details of which the trust is built as the man who originally put it together and directed it.

The headquarters of the corporation, usually being situated in New York City, or some other large city, or in a foreign country, are far removed from the actual scene of operations. The plants are scattered around the country, and no man, however active, can hope to become intimately and personally acquainted with all of them. The administration becomes gradually more machine-like, more and more red tape is introduced, and the human element is eliminated.

Who, for a moment, imagines that the sugar trust, as administered to-day, is as well handled, from the owner's point of view, as when administered by Havemeyer? Who imagines that the Standard Oil Company, which has reached the highest efficiency in all possible directions, under the administration of Rockefeller, could have continued that efficiency, even if it had not been interfered with by our courts, with Rockefeller's dominating influence withdrawn?

It is in these facts that the inherent weakness of big business and our trusts lies. Their successful operation in the future depends on the solution of these problems.

THE NATURAL INEFFICIENCY OF HUMANITY

The inefficiency of the administrative departments of smaller business is due to the natural inefficiency of humanity. The majority of men are satisfied with well enough, instead of the best possible. The majority of administrative departments are satisfied to operate their businesses along old lines, with a moderate degree of success, instead of studying themselves and forcing themselves on to greater activity and greater success.

Many of the executives of these small businesses have neither the training nor the knowledge which is required to operate a business successfully. They may depend wholly upon the personal touch, when we all know the personal touch must be backed by the general reports and statistics. They may depend wholly upon reports and statistics, when we know that reports and statistics must be backed by personal familiarity with every detail of the business involved. They content themselves with doing what others have done before them, rather than putting forth any new lines of action, new lines of activity.

What is true as to the individual regarding his inability to maintain a constant high pressure of enthusiasm and initiative, when the easy things have been done, when the novelty has been worn off, or as in the case of athletics—when the candidate “goes stale”—is equally true of an administrative department; applying to all branches of the service, as well as to the organization as a whole. These periods are called “plateaus” by one noted writer; and be it here stated that any executive department or individual who takes root on a plateau is hopelessly lost.

Having knowledge of these possibilities, as we study results from the efficiency standpoint, the wise administration will adopt prompt corrective measures, and see that the entire organization does not get stale at the same time. The executive “punch” is just as essential as the individual punch, and provisions must be made for continuing a reasonably good punch at all times and an exceptional one every once in a while—as often as the candidate is good for it.

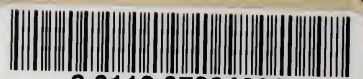
HOW TO INCREASE ADMINISTRATIVE EFFICIENCY

The problem before this organization is to increase the efficiency of these administrative departments in big business and little business. Better methods for executives to follow must be marked out. We must secure from executives and administrative departments which

are undoubtedly efficient a definite statement of how that efficiency is obtained. We should circulate the results of this investigation.

Standards should be gradually established for return from the capital, for wages to be paid employes, and for excess of selling price over actual labor and material cost, from the point of view of the public. We should establish ways of measuring actual results accomplished in terms of these standards, and encourage executives to apply these measurements to their own conditions. We should encourage executives to submit their results and their methods to a committee of expert executives for criticism and suggestion.

In my opinion the greatest opportunity for increasing efficiency of the business world as a whole lies in increasing the efficiency of its administrative departments.



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